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Funding Valuations

Role of a funding valuation

A funding valuation is an assessment of the long-term financial health of a pension plan. The valuation shows whether the plan has a surplus of assets, a shortfall of assets, or the right amount of assets needed to pay future pension benefits.

The valuation uses a number of assumptions to compare the value of pension plan assets (such as stocks and bonds, as well as future contributions) to the value of pension plan liabilities (the amount required to pay accrued and future pension benefits).

A valuation is a good measure of the pension plan's financial health because it looks ahead more than 70 years. That's how long the pension plan is expected to pay future benefits promised to all current members and their survivors.

Role of the sponsors

A plan sponsor – usually the employer – is responsible for ensuring that a defined benefit pension plan is fully funded.

The Teachers' pension plan has two sponsors: Ontario Teachers' Federation (OTF), representing plan members, and the Ontario government, representing employers. These co-sponsors negotiate the use of surplus funds and, when there is a funding shortfall, both share responsibility for eliminating it.

Filing a funding valuation

The sponsors are required to file a funding valuation with the regulators at least every three years, but they can choose to file more frequently. A filed valuation must show that the plan has enough assets to meet the projected cost of future pension benefits.

If a preliminary valuation shows a shortfall or a surplus, the sponsors jointly decide on how they will balance the plan before the valuation is filed with the regulators.

Handling a funding surplus or shortfall

OTF and the Ontario government, which sponsor the pension plan, have a Funding Management Policy that guides their decisions on how to use any surplus funds or resolve any shortfall. To address a funding surplus or shortfall, they can:

- Change contribution rates
- Change the level of inflation protection for pension credit earned after 2009
- Change other pension benefits members will earn in future years
- Adopt a combination of these options





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